GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2712
ANSWERED ON:17.03.2017
Tax Exemption to Urban Development Authorities
Rawal Shri Paresh

Will the Minister of FINANCE be pleased to state:

(a) Whether the Union Development Authorities are statutory authorities and performs planning and development functions for the welfare of society and their activities cannot be termed as being in the nature of trade, commerce or business;
(b) If, so, the details thereof;
(c) Whether such authorities enjoyed complete exemption from Income Tax u/s 10(20-A) of the Income Tax Act, 1961 till 2002-2003 and their income has been made taxable w.e.f. 01.04.2003, if so, the details thereof;
(d) Whether the State Government of Gujarat has taken up the issue with Government for favourable action taken to enable urban development authorities to become financially more viable for development of the urban periphery; and
(e) If so, the details thereof; and the action taken thereon?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SANTOSH KUMAR GANGWAR)

(a) & (b): The formation of Urban Development Authorities ('UDAs') and the nature of activities undertaken by them are governed by their respective constituting Acts. The activities like sale and purchase of land, developing and selling residential/commercial properties, leasing/letting out premises on rent and earning revenue through leasing out of hoardings etc. have commercial/business elements embedded therein. However, these entities claim to fall within the purview of section 2(15) of Income-tax Act, 1961 ('Act') which defines the term 'charitable purpose'. As per this provision, the advancement of certain objects of General Public Utility like the activities carried out by UDAs are not eligible for tax exemptions under the Act if those involve the carrying on of activities in the nature of trade, commerce or business etc., irrespective of the nature of use or application, or retention, of the income from such activity.

(c): Yes, till 31.03.2003 any income of an authority constituted in India by or under law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both was exempt u/s 10(20A). This provision was discontinued w.e.f. 01.04.2003. Thereafter, unless such entities qualify for tax exemption u/s 11 [read with section 12A and 2(15)] or section 10(46) of the Act, their income becomes taxable.
(d)& (e): Representation seeking suitable modification in the present tax laws for exemption in respect of income of the Urban Development Agencies (UDAs) was received from Government of Gujarat. The issue of exemption to UDAs was examined and was not found feasible in view of the stated policy of the Government to do away with the exemptions and deductions in a moderate tax regime.
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